

Why did Nissan have to close Australian auto-manufacturing plant ?

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0. Introduction

A Japanese auto-manufacturer Nissan announced on February 3, 1992, the closure of its automobile plant in Melbourne, Australia. Mr. Leon Daphine, managing director of the company, said in the *Financial Review* that this decision to close the plant will end up with cutting down about 2,000 manufacturing jobs. Besides, hundreds of others around the auto-manufacturing will be lost, because Nissan is now supplied with auto-parts by a lot of parts companies there in Australia. The state economy in Australia has been in the long recession. So this decision will be sure to provoke hot debates in the country, in particular in Melbourne, which is in the state of Victoria.

In this paper I will argue about the theoretical background of the retreat of Nissan from Australia.

1. Nissan Clayton-Plant

In regard to foreign direct investment, Nissan was the first Japanese auto-manufacturer that entered the Australian market. This happened in 1966 and almost ten years ahead the rival Toyota, which entered in the 70's. Thereafter, the company moved its plant from Sydney, N. S. W., to Melbourne, Victoria in 1977. The plant was located at Clayton.

The strategy that Nissan tried to take in Australia around this time was to substitute the exports from Japan for local productions. The Clayton-plant played an important role in this respect.

Nissan manufactured Bluebird sedan and Pulsar sedan at this plant by 1978. In the mid 80's Nissan decided to phase out Skyline sedan and Bluebird sedan, and to replace them with Pintara, whose cylinder was improved and the size of the car itself was remodeled after the style of Australia. The brand of Pintara has not been in Japan.

In 1984 Nissan Australia started exporting their cars to New Zealand. Last year, 1991, they started exporting Pintara models to Japan. This exportation in the opposite direction, from Australia to Japan, was a first in Nissan foreign subsidiary companies.

But Nissan Australia has been losing for the past 10 years. Mr. Leon Daphine said, "We had to face up to the fact that we were not making any money out of our current configuration of bussiness". In fact, Nissan Australia lost A\$125 million every year from the establishment to March, 1991, and is expected to lose almost of the same this year. Its Japanese parent has invested almost A\$1 billion in the past five years with no return (*The Age*. 5 Feb., 1992)

2. The Button Plan

The timing of Nissan's decision to close its Clayton-plant must be a blow not only to the Federal but also to the state government of Victoria. But this situation had been expected from the government. In 1984, the Federal Minister of Industry, Technology and Commerce, Senator Button pointed out the size of the car market in Australia, about 450,000 passenger units in that time, and said it was not enough to support five auto-manufacturers. And he decided on a target of reducing five manufacturers to three. This is called the Button Plan.

The rationalization of the motor industry, a target of the Federal Government car plan, was introduced in 1984 under this Button plan and intended to slim the industry to three manufactures. Until this time all the five car companies had existed with the vehicle market being constant. (*See table 1 & 2*)

Table 1 AUST MARKET SHARE (%)

Maker	1987	1988	1989	1990	1991
Nissan	9.3	10.9	11.1	11.8	10.0
Ford	28.6	25.7	24.2	22.7	20.6
Toyota	18.1	19.3	17.5	20.9	21.5
GM- Holden	18.7	17.6	18.8	17.4	16.8
Mitsubishi	11.9	12.0	11.9	10.5	11.3
Total	86.6	85.5	83.5	83.3	80.2

Source : Paxus, Mazda

Table 2 AUST VEHICLE SALES (units)

Maker	1989	1990	1991
Nissan	67,457	72,735	51,449
Ford	147,095	139,866	106,109
Toyota	113,984	128,785	110,578
GM- Holden	106,237	107,496	86,356
Mitsubishi	72,402	65,057	58,149
Total industry	607,499	617,298	514,556
Total passenger	444,001	462,506	388,269
Total commercial	163,498	154,792	126,297

Source : Paxus, Mazda

3. The Tariff Policy

Last year the Australian Federal Government announced a tariff reduction. The tariff cut of annual reduction of 2.5% is to be put into practice, from 37.5% of 1991 to 12.5% of 2000. It is inevitable for Nissan to be obliged to go out of local productions in Australia by this phased reduction of tariffs. This means that Nissan will raise the rate of exports from Japan.

This situation is shown in figure 1; the x and y axes are the Quantity and Price. The downward-sloping line indicates Domestic Demand. The upward-sloping line shows Domestic Supply. Under the tariffs of EJ, domestic supply is JK (=OB), importations is KL (=BC), and domestic consumptions is OC. Now, if the tariffs reduction for E (=Free trade line), domestic consumptions will expand OD. And FI (=AD) will be import, domestic production will decrease only EF (=OA). Thus, the effect of tariff-reduction will decrease domestic price, supply, and will increase domestic consumptions, importations. Further more the revenue of tariffs (=KLGH) will diminish.

The Prime Minister, Mr. Keating, said the future of the Nissan Australian operation was a matter for the company. And he said there was no alteration in the schedule of protection reductions. (*The Age*, 3, Feb. 1992)

By reducing protections, the Australian government aimed to make the car industry leaner and more efficient.

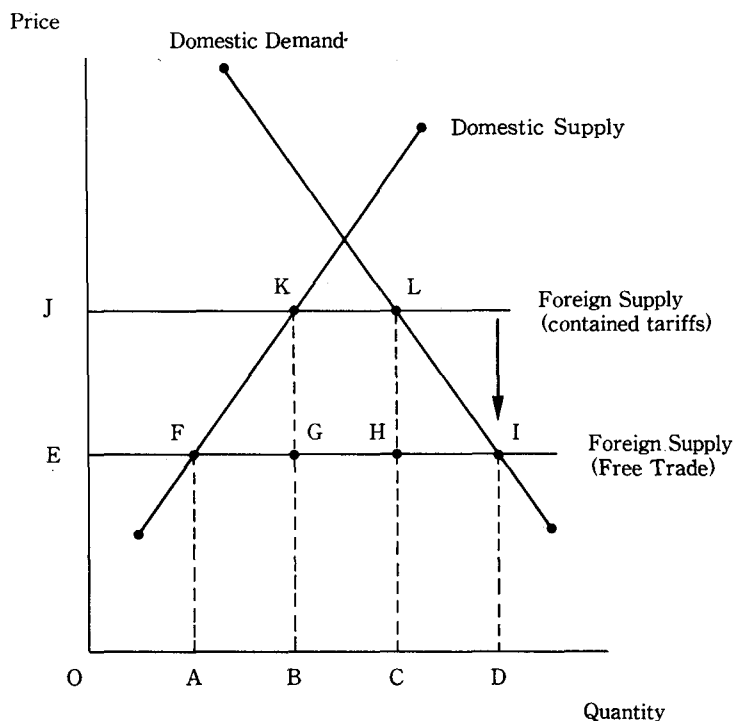


Figure 1 The effect of tariffs

Certainly, the Australian market will be come more efficient.

However, the expansion of exportation will not be guaranted. The Australian economy will continue adjustment.

4. Conclusion

The closure of Nissan will in the long term be interest to the Australian economy. But at the same time it will bring a severe time to the state of Victoria, which is now bearing the brunt of the recession.

However, it is a strategy for the nation to gain their industrial development and international competition. The Federal Government's tariff reform policy urged Nissan to close their plant as part of the restructuring of the old industrial base of Australia and will prepare the Australian economy for the growth of new industries such as telecommunication. Time will be sure to tell us about the future.

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